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Restaurant Business

MAY 20, 1989

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Restaurant Business

WIN A TRIP FOR TWO

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SWEEPSTAKES!

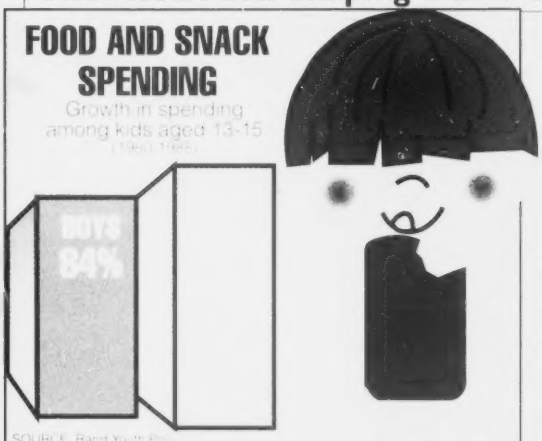
BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Howard Riell

FOOD AND SNACK SPENDING

Growth in spending among kids aged 13-15 (1980-1988)



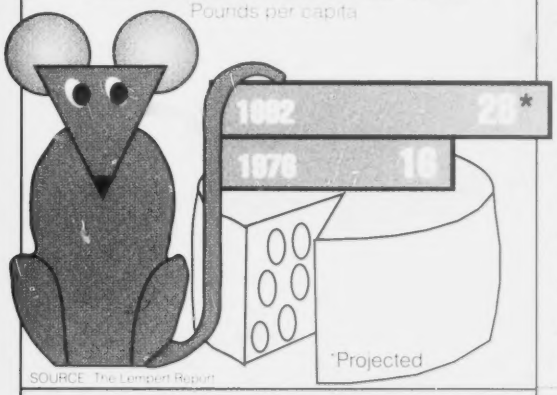
SOURCE: Rand Youth Poll

Putting Money Where Kids' Mouths Are

Boys aged 16 to 19 spent 140% more on food and snacks in 1988 than they did in 1980, says the Rand Youth Poll; girls in the same age group spent an average of 130% more. The poll found that food and snack spending has, to a large degree, coincided with teens' expanding social lives, and that "the growth of low-calorie foods, especially soft drinks, makes it possible for weight-conscious teens to comfortably consume larger amounts of food without fear of becoming overweight." Increased advertising is also cited as a contributor to the spending upswing.

U.S. CHEESE CONSUMPTION

Pounds per capita



SOURCE: The Lempert Report

America Says 'Cheese'

While cheese consumption in America is growing, says The Lempert Report, it may be expanding at less than its full potential because of cholesterol fears. Low-fat/low-calorie and low- and no-cholesterol cheese products have proven to be popular. Fat content has been cut in some cheeses by replacing whole milk (which contains 33 mg. of cholesterol per serving) with skim milk (which has just four mg.). But, because they contain less butterfat, the more healthful cheeses may lack some taste. For more information on cheese and dairy products, see Menu Ideas, page 265.

WORLD POPULATION

Largest urban populations in the year 2000, in millions

Mexico City, Mexico	25.8
Sao Paulo, Brazil	24.0
Tokyo/Yokohama, Japan	20.2
Calcutta, India	16.5
Bombay, India	16.0
New York City, U.S.	15.8

SOURCE: The Futures Group

Earth's Most Crowded Cities: 2000

One notable feature of the rapid increase in the world's population, according to the Glastonbury, CT-based Futures Group, is that more people than ever are living in cities. While urban populations are growing at an annual rate of 1% in Europe and North America, they are growing by 3.5% in the developing world. Currently, 13 of the 20 largest urban agglomerations are in the developing world; by 2000, that number will have increased to 17. That growth may not, however, translate into new markets for U.S. companies due to debt and poor economic growth.

RESTAURANT BUSINESS

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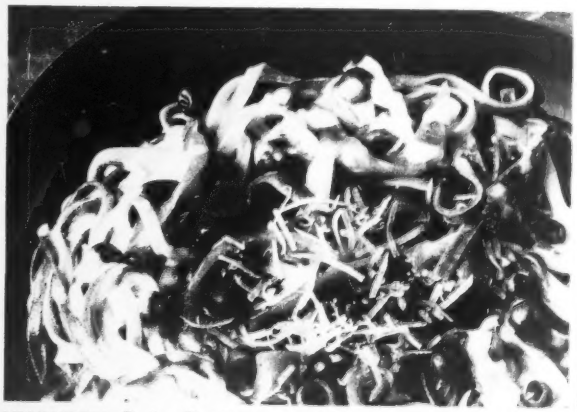

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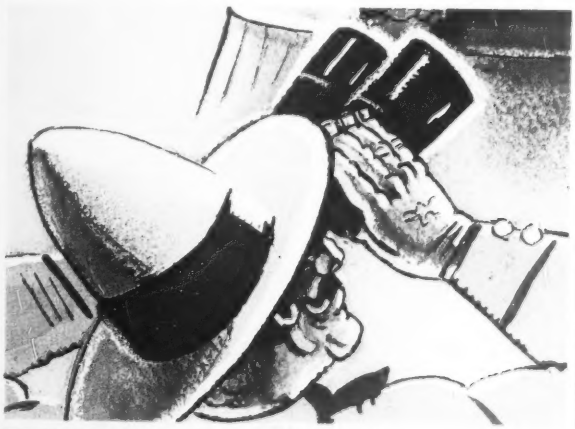

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COVER STORY

SOLID WASTE **THE TRASH CLASH.** *As the industry struggles to correct misconceptions about solid waste, advocacy groups and local legislatures are taking aim. Many observers believe the only solution is for the fast-food industry to take a proactive stance. Included is an exclusive interview with top McDonald's executives on what the company is doing to ease the solid waste situation* 143

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Cover photography by Don Kushnick.

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UPCOMING CONFERENCE

The Seventh Symposium on American Cuisine, co-sponsored by Restaurant Business, will take place in Santa Fe, NM, Sept. 10-13, 1989. For information, contact: Symposium on American Cuisine, 304 W. Liberty St., Suite 301, Louisville, KY 40202.

REPRINTS, INDEX AVAILABLE

Restaurant Business *now has available specially prepared reprints of the* **1988 RESTAURANT GROWTH INDEX** *and the* **1989 MAJOR FORCES IN FRANCHISING**. *The reprints are available for $5 per copy.*

In addition, Restaurant Business *is now offering its* **1988 EDITORIAL INDEX** *for $25 per copy.*

Direct inquiries to: Editor Peter Berlinski, Restaurant Business, *633 Third Avenue, New York, NY 10017.*

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IN THE NEXT ISSUE

COVER STORY

WHAT'S NEXT FOR POPEYES?

Church's Fried Chicken had been the target of takeover rumors for years, and no one was surprised when Popeyes founder Al Copeland began courting the ailing chain. What *was* surprising, however, was the vehemence with which Copeland pursued his target, landing Church's in March with a price that some analysts believe far exceeds the chain's value. With more than 1,200 units to Popeyes' 700, Church's brings Copeland significant penetration in the chicken segment. But Church's has been losing money for years, and Copeland now carries a staggering debt load. The question is: What's next?

MARKET SEGMENT REPORT

BBQ/COUNTRY COOKING

Despite customer interest, this segment remains difficult, and no chain has a national presence. But because preferences are strongly regional, smaller chains and independents have carved out profitable niches.

MENU IDEAS

ICE CREAM/SOFT SERVE

Operators are continuing to reap high profits and consistent sales from frozen treats. These menu suggestions and recipes from the *RB* Test Kitchen focus on new ways to merchandise ice cream and soft serve.

DRAFTS, CARAFES & SPIRITS

FRUIT-BASED DELIGHTS

Entry-level drinkers as well as affluent baby boomers and health-conscious customers are craving juice- and fruit-flavored drinks.

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(416) 624-3730 • FAX (416) 624-1323
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Restaurant Business

EDITORIAL STAFF
EDITOR Peter R. Berlinski
EXECUTIVE EDITOR Joan Lang
MANAGING EDITOR Tom Strenk
ASSISTANT MANAGING EDITOR Shelley Wolson
NEWS EDITOR Howard Riell
SENIOR WRITER Paul Frumkin
ASSOCIATE EDITOR Donna Perkinson
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ASSISTANT TO THE EDITOR Mary Ann Tasoulas

FOOD EDITOR Scott Allmendinger
BEVERAGE EDITOR James Scarpa
FOOD CONSULTANT Kathleen Kenny Sanderson

WEST COAST EDITOR Kevin Farrell (714) 964-6470
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ART DIRECTOR Lisa Powers
ASSOCIATE ART DIRECTOR Beth Meyers
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SPECIAL PROJECTS EDITORS Denise M. Brennan, Patricia Moore Kolb

COLUMNISTS
Patricia Baird, Dr. Michael Kasavana, Irv L. Blackman, Gen LaGreca, Dr. Joseph Durocher, Karen MacNeil, David L. Epstein, Bill Main, Dr. Mortimer R. Feinberg, Edmund Osterland, Dr. Sandy Kapoor, Karen Wilk Rubin, Don Shapiro

CONTRIBUTING EDITORS
Carol Casper, Don Nichols, Jacque White Kochak, James Peters

PRESIDENT/GROUP PUBLISHER Jeffrey P. Berlind

Editorial Office
633 Third Ave., New York, NY 10017
(212) 986-4800

Midwest Office
180 N. Michigan Ave., Chicago, IL 60601
(312) 782-1266

West Coast Office
10540 Talbert Ave., East Tower, Suite 150
Fountain Valley, CA 92708
(714) 964-6470

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HOTEL FORUM

BY DENISE M. BRENNAN

Hotel food and beverage executives meeting recently in Washington, DC, heard a mixed forecast about challenges and opportunities facing the industry in the 1990s and beyond.

Addressing the concerns about growth, development, and design trends were four guest speakers: Mark Lomanno, U.S. Hotels, Laventhol & Horwath, Philadelphia, PA; Brad Elias, The Hochheiser Elias Design Group, New York, NY; Don Urgo, Urgo, Butts, and Villardo, Chevy Chase, MD; and William Fisher, the National Restaurant Association, Washington, DC.

Mark Lomanno, national director of research for Laventhol & Horwath (L&H), kicked off the meeting with an industry overview of growth and development in the hotel industry. According to Lomanno, explosive growth within the hotel industry has yielded a 40% increase in the number of rooms over the last 10 years—from 2.0 million rooms in 1979 to 2.9 million in 1989. However, demand has not kept pace with development and as a result, overall sluggish occupancy rates (in the 64% to 65% range) have plagued the industry.

ROOM RATES TO LOWER. Although construction has slowed, it will take time before the rooms are absorbed. Lomanno does not expect occupancy rates to rise to the 70% level until the mid-1990s. The immediate impact will be downward pressure on room rates, forcing hoteliers to maintain moderate prices.

Another factor influencing future hotel development, participants pointed out, is the removal of the pre-tax earning incentive due to the Tax Reform Act. Increased labor costs coupled with high fixed charges mean no positive pre-tax earnings until 1992. "From the period of 1968 to 1987, hotel revenues increased four times while fixed charges increased 12 times. Today, 55% of individual properties are losing money," says Lomanno.

INDUSTRY SHAKEOUT. The confluence of these factors produces an industry shakeout that finds the economy sector of the market least affected and the midscale segment most vulnerable. According to Lomanno, mismanaged upscale properties are also in danger. During 1988, 750 properties representing 80,000 rooms have changed banners.

This shakeout makes the U.S. extremely attractive to foreign investors. These investors are attracted by three factors: long-term ROI; gateway entry into the U.S.; and trophy status of certain properties. ("Trophy status" can be defined as a luxury property in a gateway city such as New York or San Francisco.) The purchase of chains or individual hotels by foreign investors also represents an avenue for diversification for the new owners.

> 'The 1990s will bring up the shortage of workers, and the minimum wage labor pool will dry up.'

In addition, foreign visitors to the U.S. are generating more revenues to the hotel industry. For example, in 1982 and 1983, 8% to 9% of U.S. hotel revenues came from nondomestic sources. By 1992, this number is projected to double to 16%. This is attributable to foreign visitors who are willing to pay more for a room and who stay for longer periods of time.

LOOKING AHEAD. Resorts and gateway cities are the strongest markets for continued development (see chart, page 130.) It is interesting to note that of the top six markets designated as having high occupancy potential, three

continued on page 128

ABOUT THE FORUM

The International Forum of Corporate Hotel Food and Beverage Executives (The Hotel Forum) is comprised of the top level food and beverage executives from many of the major hotel company chains.

The information in this article was presented at a recent meeting at the Sheraton Washington Hotel in Washington, DC.

At this meeting, chairman Karl Kilburg, regional vice president for Marriott Hotels & Resorts, turned over the gavel to Peter Kleiser, senior vice president of food and beverage for Hilton Hotels.

Other members of the forum include: Reto Schmidt, vice president food and beverage, Canadian Pacific Hotels; Barry Berlin, vice president food and beverage, Days Inns of America Inc.; Doren Chisholm, director food and beverage, Embassy Suites; Alfons Konrad, vice president food and beverage, Four Seasons Hotels; Klaus Doelling, vice president food and beverage, Hyatt International; Steve Peeck, staff vice president, Inter-Continental Hotel Corp.; Peter Hothorn, vice president food and beverage, Omni Hotels; Don Clawson, vice president food and beverage, Radisson Hotel Corp.; Hermann Haastrup, vice president food and beverage, Red Lion Inns; Rene Schmitt, vice president food and beverage North America, Sheraton Corp. (Forum host); Giulio Comacchio, director food and beverage, Stouffer Hotels; Kurt Fischer, vice president food and beverage, Westin Hotels; Fred Rufe, member emeritus, and president, Fred Rufe Associates.

In addition, Jeffrey Berlind, publisher, Peter Berlinski, editor, and Denise M. Brennan, special projects editor, of *Restaurant Business*, are also members.

The next Hotel Forum meeting will be held in September at the Four Seasons Hotel in Vancouver, Canada.–**DMB**

(Honolulu, Las Vegas, and Orlando) are resort cities and three (New York, San Francisco, and Los Angeles) are gateway cities. "This is where the future is in the U.S.," says Lomanno, adding, "Some of these cities are considered overbuilt and here the challenge is how to get more product into these areas."

L&H's Hotel Development Forecast has targeted 10 vibrant economic areas for growth over the next five to 10 years. These cities were chosen on the basis of population, employment, business growth, and economic development. Lomanno also pinpointed other areas of concern to the hotel industry. These included: human resources, hotel automation, and the internationalization of travel.

Lomanno characterizes human resources as the "most critical" challenge facing the industry. "The 1990s will bring up the shortage of skilled and unskilled workers, and the minimum wage labor pool will dry up. These are the people who, in the hotel industry, cover the weekend and night shifts," says Lomanno. One realistic, albeit politically unpopular alternative, is to change the immigration laws, and open the country up again. On the management level, the industry will see more managers defect to other, more stable industries.

Lomanno believes the following issues are critical to the hotel industry:

- Turnover;
- Motivation;
- Productivity improvement (individual);
- Non-management recruitment; and
- Productivity improvement (organizational).

In order to deal successfully with these issues, the industry must work to reward, recognize, and retain all employees. To that end, Lomanno recommends taking the following steps:

- Define base salaries;
- Develop incentive compensation;
- Institute long-term incentives;
- Offer benefits; and

continued on page 130

Brad Elias made the Sheraton Washington's Americus Restaurant more contemporary because the owners didn't want guests intimidated by a formal dining room.

• Provide meaningful "perks."

As the cost of technology decreases it is possible for hotels to work towards the objective of filling every room at the highest possible rate. Technology's impact is visible in the following areas: modernization; profitability; guest services; and differentiating one hotel product from another.

INTERNATIONALIZATION. In 1987, 30 million foreign visitors stayed at U.S. hotels. By 2000, this number should increase to 48 million with 45% from overseas; 45% from Canada; and 10% from Mexico. Foreign visitors are appreciated by American hoteliers because they stay three times as long as domestic guests and are more affluent. "This influx is inevitable," says Lomanno. "Foreign tourist travel follows where foreign business travel leads."

The birth of the integrated hotel market will be stabilized by the following factors:

- Economic growth;
- Politics;
- Demographics;
- Environment;
- Infrastructure; and
- Currency rate.

RESTAURANT DESIGN. Brad Elias, principal and design director of Hoefleheiser Elias Design Group, describes restaurants of the '90s as "lighter, brighter, with upgraded artwork replacing memorabilia, and subtle themes." Says Elias: "Today's trends in design close the gap between fashion and dining. In fact, today, reviewers consider design as well as food and service in their critiques."

As evidence of the growing importance of design, Elias points out that the decor in McDonald's 30th anniversary store makes the unit look "more like a full-service restaurant and less like a fast food outlet."

Other trends that Elias points to include the architectural manipulation of space (columns and moldings), *trompe l'oeil* effects, fusions in restaurant styles (take-out dining), cocooning—cozy nooks that offer both audio priva-

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According to Laventhol & Horwath, though foreign visitors to the U.S. are generating more revenues for the hotel industry, property development has slowed.

MEMBERSHIP

Canadian Pacific Hotels
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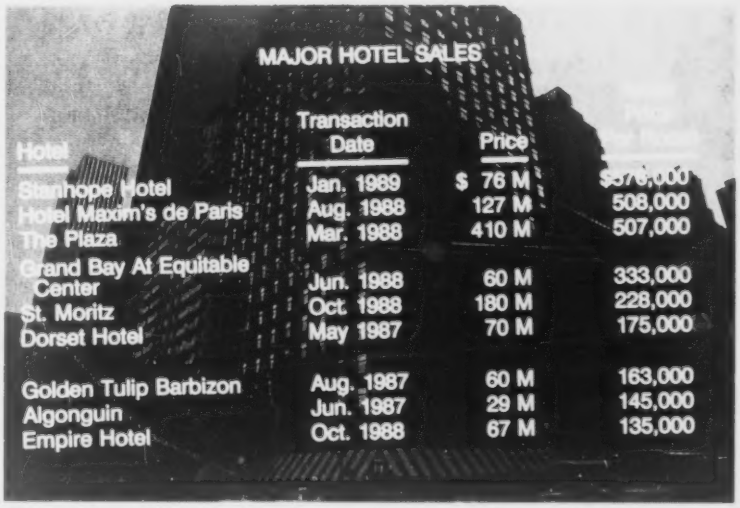


The purchase of "trophy status" properties is extremely attractive to investors.

ey and visual stimulation—and sound systems. In addition, he says we will see more recessed, minimalist and decorative lighting for sparkle and glamour, a phasing out of matrix and teal color schemes, increased use of "jewel" colors for punctuation, fabric instead of vinyl for finish, increased use of etched beveled glass, brass instead of chrome, more flowers, fewer plants.

UNDER SIEGE. Don Lugo, a development consultant in the Washington, DC area and an adviser to financial institutions, describes the hotel industry as one "under siege." This is especially true when it is applied to hotel food and beverage as development dollars are being invested in forms that offer limited or no food and beverage.

"Developers are interested in budget hotels that have no restaurants, moderate hotels that have almost no food and beverage, all-suite hotel properties that have as little food and beverage space as possible, and extended-stay hotels which provide kitchens rather than restaurants," Lugo explains. There is no longer a tax benefit in building a full-service hotel, and the market in this segment is overbuilt and overexpanded, he says.

According to Lugo, hotel chains have put themselves in a corner by encouraging "more rather than enough." This, he points out, is especially true when it comes to restaurants and public space. In the past, the thinking has been if you need one full-service restaurant you should build one full-service restaurant and one gourmet restaurant. This overbuilding was initiated by the cost to ease it was needed approach, says Lugo.

$500 PER PERSON. William Fisher, executive vice president of the National Restaurant Association, addressed the group on issues that will have an impact on both the hotel and restaurant industries. Not surprisingly, the federal budget and, most important, the federal deficit headed the list.

To describe the seriousness of the $2.6 trillion deficit, Fisher used the following example: "If every person alive on earth today donated $500 towards the deficit, it would still not be enough to erase it."

Fisher pointed out that over the last five years, the United States has gone from being a creditor nation to being a debtor nation and there seems to be no end in sight.

FrontLine

A NEW MARKETING TOOL

BY ROBERT J. SIEGEL AND CARL DeBIASE

About three fourths of all households reside in the 75 largest ADIs (Areas of Dominant Influence of a television channel) in the U.S. On average, a similar proportion of major chain fast food family style restaurants, locations, and sales are derived in these same 75 markets. In other words, what happens in these markets, individually and collectively, goes a long way toward explaining the performance of the country's major chains.

Now, there is an information service that dissects the basic elements of structure, strength, and trend for each of the 150 leading fast food family style chains, within eight restaurant categories, in each of these top 75 markets, over 12 successive month periods. The service is FrontLine Reports, a combined effort of RE/COUNT from Restaurant Consulting Group Inc., Evanston, IL, and Restaurant Trends, Middletown, NJ. The following points highlight some of the findings of these reports for 1988 versus 1987:

- Dollar sales (unadjusted for price changes) for the 147 leading fast food family style chains rose by just 6.8%.
- About two-thirds of the sales growth for these chains came from adding restaurant units (a 4.5% increase in units).
- Average unit volumes (sales per restaurant) grew by only 2.2%, below the rate of menu price inflation.

While the leading pizza chains enjoyed the fastest increase in total sales,

continued on page 138

Robert J. Siegel is president of Restaurant Consulting Group, Evanston, IL. Carl DeBiase is president of Restaurant Trends, Middletown, NJ.

The Strongest Markets

32 markets are above average; the top 12 are:

ADI NAME	ADI INDEX*
Washington, DC	120
New York	117
Baltimore	115
Los Angeles	111
San Francisco	111
Boston	110
Richmond	109
Miami	108
Atlanta	106
Greensboro/Winston-Salem/High Point	106
San Diego	106
Jacksonville	106

The Weakest Markets

39 markets are below average; the bottom 12 are:

ADI NAME	ADI INDEX*
Tulsa	87
Oklahoma City	88
Omaha	88
Salt Lake City	89
Mobile/Pensacola	89
Portland, OR	90
Buffalo	92
San Antonio	92
Des Moines	93
Green Bay	93
Houston	93
Shreveport/Texarkana	93

* The average unit volume (auv) for each chain in a market is divided by its 75 market auv to indicate the strength or weakness of that chain in that market. The index is the weighted average of all chain indexes in that market.

SOURCE: FrontLine Report

FrontLine points out that average unit volumes (auv's) for the top 29 pizza chains are still the lowest of any of the categories. Only a very small portion of pizza chains' total sales gains came from improvement on a per-store basis. In part, this reflects the changing composition of the chain pizza market. Conversely, for the leading 21 hamburger/sandwich chains, the gains in auv's accounted for more than the category's total sales increase (see the table below).

The information on unit counts, average unit sales, total market sales and share is collected individually for each major chain operating in each of the 75 markets, yielding succint market reports.

In addition, the auv's for each chain, each category, and total major chains is compared (indexed) to the corresponding average in the Total 75 Market Report. This is an excellent method of providing easy reference on relative strength or weakness of per-store performance at the local market level.

Immense differences exist between markets on an individual chain's (or category's) per-store sales and development; the knowledge of these differences is clearly one of the keys to successfully competing. Even when considering the differences in the average unit sales levels for the total major chains, there are sizable swings across the 75 markets.

	1988 STRUCTURE				%CHANGE, 1988 VS. 1987		
	Number of Chains	Number of Units	Average Unit Vol. ($000)	Share of Market	Total Sales	Number of Units	Average Unit Vol. ($00)
Total Major Chains	**147**	**53,336**	**797**	**100.0%**	**+6.8**	**+4.5**	**+2.2**
Pizza	29	11,592	498	13.6	+11.8	+10.6	+1.2
Mexican	15	3,227	520	4.0	+10.5	+7.4	+2.8
Hamburger/Sandwich	21	19,926	1,030	48.3	+7.0	+3.3	+3.6
Cafeteria	8	546	1,757	2.3	+6.6	+4.4	+2.2
Coffee Shop	35	6,527	888	13.6	+5.3	+2.4	+2.8
Chicken	17	7,088	582	9.7	+3.7	+1.1	+2.5
Steak House	11	2,635	1,017	6.3	+2.6	+1.0	+1.6
Seafood	11	1,795	537	2.3	+2.2	+1.6	+0.8

Source: FrontLine Report

FOR MORE INFORMATION

FrontLine Reports combine the most current unit count information from RE-COUNT with more than 20,000 personal interviews with owners/managers representing over 53,000 restaurants operated by the top 150 quick-service chains. For more information, contact Robert Siegel at Restaurant Consulting Group, (312) 869-8600, or Carl DeBiase at Restaurant Trends, (201) 671-4444.

A LOOMING CRISIS

As mountains of trash pile up in landfills across the country, consumer groups and lawmakers are taking aim at what they perceive to be one of the major contributors to the problem: the foodservice industry.

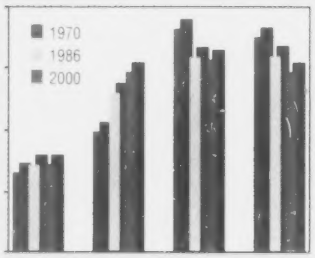
While experts attempt to bring the real facts to the public's attention, they admit to fighting a frustrating battle against some very widespread—and damaging—misconceptions. And, these experts assert, if the foodservice industry doesn't do something about changing those misconceptions, it could soon find itself buried under a mountain of restrictive legislation.

Earlier this year, the city council in Portland, OR, voted to limit the use of plastics within city limits. The local ban, scheduled to take effect Jan. 1, 1990, prohibits restaurateurs and retail food vendors from serving prepared food in any polystyrene foam containers, either on premise or for take-out.

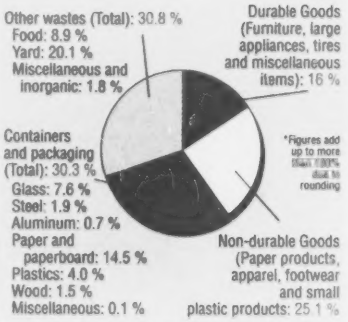
Local foodservice operators and various packaging industry representatives tried to head off the ban, lobbying vigorously against it at three public hearings. Nevertheless, the council finally passed the legislation by a unanimous vote.

At the time of the bill's passage, Earl Blumenauer, Portland's commissioner of public works and an important sponsor of the bill, came down hard on plastics. "Nothing epitomizes the problems associated with our throw-away society more than the polystyrene foam issue," he declared. "We use these products for 10 minutes and they last forever as litter or in our landfills."

Portland joins Berkeley, CA, Newark, NJ, and Suffolk County, NY—and, more recently, Minneapolis, MN—in the distinction of authorizing the first pieces of legislation to restrict at the retail level the use of materials produced from polystyrene foam—and, in some cases, polyvinyl chloride.



SOURCE: U.S. Environmental Protection Agency, Franklin Associates Ltd.


Other wastes (Total): 30.8 %
Food: 8.9 %
Yard: 20.1 %
Miscellaneous and inorganic: 1.8 %
Durable Goods (Furniture, large appliances, tires and miscellaneous items): 16 %
Containers and packaging (Total): 30.3 %
Glass: 7.6 %
Steel: 1.9 %
Aluminum: 0.7 %
Paper and paperboard: 14.5 %
Plastics: 4.0 %
Wood: 1.5 %
Miscellaneous: 0.1 %
*Figures add up to more than 100% due to rounding
Non-durable Goods (Paper products, apparel, footwear and small plastic products: 25.1 %

SOURCE: U.S. Environmental Protection Agency, Franklin Associates Ltd.

Perhaps more important, this legislation embodies what many experts believe are mistaken—albeit well-intentioned—attempts on the part of lawmakers to come to grips with the very urgent issue of what to do about our growing solid waste problem.

"State and local bodies are trying to show their constituencies that they are being responsive to the issue," observes Robert Harrington, assistant director, technical services and public health and safety, for the National Restaurant Association. "They're well-meaning, but they're obviously taking the short view. You can't just ban some plastic products, and say you've solved the problem. There are some hard choices to be made."

SINGLING OUT FOODSERVICE. To further complicate matters, a number of legislators and consumer groups are singling out the foodservice industry—most notably, fast-food chains—as being among the major perpetrators of the problem.

"Our counter to this kind of attack is, 'Yes, there is a problem; but, no, we're not the cause of it'," says Harrington.

Clearly, the solid waste problem is real—we are running out of room to dump our waste. According to the Washington, DC-based Council for Solid Waste Solutions, Americans currently generate over 158 million tons of municipal solid waste each year—a number that translates into about 3.6 lb. of material per person every day. Of that total, less than 17% is recycled or processed through energy recovery systems. By comparison, Japan recycles 50% of its waste, incinerates an-

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CONSUMER GROUPS AND LEGISLATORS ARE LAYING BLAME FOR THE SOLID WASTE PROBLEM ON FAST FOOD'S DOOR.

other 34%, and landfills only 16%. Furthermore, the total amount of landfill space is diminishing at an alarming rate. In more than 40 states, landfills are being forced to close because they have either reached capacity or cannot meet current environmental standards. In 1979, the U.S. Environmental Protection Agency (EPA) estimated that there were over 18,600 landfills operating in the United States. At the end of 1988, that total had dropped to only 6,000. And by 1993, only 4,800 landfills will be open, according to EPA predictions.

Most of the burden falls on the more densely populated states located along the East and West coasts, where land is at a premium. The image of the New York garbage barge with no place to dump its load last summer is etched clearly in many people's minds. In fact, over 200 of New York State's 500 landfills closed between 1983 and 1987. The entire metropolitan New York area uses only one landfill, and that is scheduled to close in 11 years. In 1970, New Jersey had 370 landfills in operation. Last year, only eight were accepting 90% of the state's municipal solid waste.

This is a problem restaurateurs—both chain and independent—are already aware of. According to the Council for Solid Waste Solutions, the average fee that waste haulers pay to unload at disposal sites nationally has skyrocketed from nearly $11 per ton to just over $20. In the Northeast, fees are closer to $40 a ton—although some communities on Long Island and in New Jersey pay as much as $138 per ton for out-of-state disposal.

According to Fred Sampson, president of the New York State Restaurant Association (NYSRA), haulage fees for New York restaurateurs have increased 180% over the past two years. In New Jersey, costs are up nearly 200%, says Frank Brill, public affairs counsel for the New Jersey Restaurant Association. And in Connecticut, some restaurateurs have seen their haulage fees triple.

The crisis has generated hundreds of bills across the country aimed at finding solutions to the waste problem. A partial list, according to the American Paper Institute, Washington, DC, includes:

- 66 bills at state levels that would impose bans or requirements of degradability on various solid waste elements;
- 12 bills seeking to implement packaging taxes and restrictions;
- 74 bills dealing with source separation and recycling;
- 19 bills concerning state purchasing preferences.

Even the EPA is considering a proposal that could potentially restrict the dumping of restaurant grease traps.

BANNING PLASTICS. While there appears to be general agreement among concerned parties on the need for more legislation to step up recycling efforts, much of the battle being waged today focuses on plastics. Many legislators and consumer groups argue that by banning the use of plastic—particularly at the retail level—a major dent will be made in the growing solid waste stream. Among the most damaging notions being circulated about plastic is that it constitutes a far greater portion of the waste stream than it actually does. For example, an article in the Feb. 12, 1989, issue of *The New York Times* states, "From a miniscule level even in 1970, plastic now accounts for 30 percent of the volume of municipal waste."

In studies conducted for the EPA by Franklin Associates, a consulting group based in Prairie Village, KS, they concluded that all plastic accounts for only 7.3% of the total municipal solid waste stream. More to the point, however, total fast-food packaging amounts to just 0.26% of landfill material by weight and 0.27% by volume, according to studies conducted by W.L. Rathje, a professor of anthropology at the University of Arizona, Tucson.

Rathje himself observes that this country has a "garbage information crisis." In a letter to *The New York Times*, he pointed out that "fast-food packaging is garishly visible, but a high public profile does not equal significant quantities in the landfill."

Few will argue that, until recently,

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'I've heard of operators on the West Coast whose disposal costs have increased from $8,000 to $120,000. How on earth does any business take that kind of increase? This industry rid itself of CFC-based containers in less than a year, at a cost of millions. Yet I never hear a word about that in the general media; I only hear that foodservice contributes more than half of the solid waste in every community. We need to work with the media to get the truth out.' ***James Peterson, president & CEO, Whataburger***

MOST OF THE SOLID WASTE BURDEN CURRENTLY FALLS ON THE MORE DENSELY POPULATED STATES ON THE TWO COASTS.

plastic did indeed present a problem. Scientists monitoring the earth's ozone layer found that fully halogenated chlorofluorocarbons (CFCs)—a family of chemical compounds used in about one-third of all polystyrene foam products, as well as air conditioners and other appliances—were contributing to the dissolution of the ozone layer above the Antarctic. The plastic and fast-food industries responded rapidly by voluntarily phasing out CFCs, replacing them with such substitutes as HCFC-22, Pentane, and Isopentane. This phaseout was completed last year.

Still, the misconceptions persist. States currently looking at outright bans on polystyrene foam include Oregon, Vermont, Maine, Massachusetts, and New York. Additionally, cities such as St. Paul, MN, and Milwaukee, WI, are considering bans as well.

LEGISLATIVE INEQUITY. Complicating the issue even further are certain inequities arising from such legislation. In Portland, for instance, restaurants and retail food vendors will be barred from using polystyrene foam products commencing Jan. 1, 1990. However, the law states that nonprofit organizations—including schools and hospitals—are exempt from this restriction.

Joseph Angel, president of Northwest Management Inc., a Portland-based operator of 27 Burger King restaurants, admits that the ban presents a problem—even though the only products affected at his operations will be the styrene foam coffee cups. "I requested that the council exempt hot beverage containers from the ban because it becomes a safety issue," says Angel. "But they ignored me."

So, Angel is requesting special dispensation from Burger King to lower the serving temperature for the coffee—which will temporarily be served in paper cups with handles. And while he admits to being unhappy about that, he says he is totally mystified that the council did not include the noncommercial sector in the ban. "The school districts and the hospitals can continue to use plastic permanently, while the private sector takes a beating," Angel complains. "If you want to take a stand on something, fine. But everyone must bear the brunt."

'Some projections compare escalating waste disposal costs in the '90s to the escalation of utility costs in the '70s. Combine the cost problem with public demands for clean air, water, and land, and the industry is faced with a problem of enormous proportions. All of us have to begin investigating and implementing practical solutions on our own or risk increased regulation by the government.'
James Arnett, president, Shoney's Division, Shoney's

Barbara George, a commissioner's assistant in Portland, defended the action, saying that plastics usage presented a "far more severe problem" in the retail sector than in the hospitals or school districts. Besides, she adds, "Hospitals and schools had more potential for being involved in recycling programs than individual restaurants or stores."

George admits, however, that the Portland school district—which uses about 3.5 million plastic trays each year—is under pressure from parents and consumer groups to discontinue the use of plastics and "reactivate the dishwashers."

Experts argue, however, that the inherent safety benefits of plastic cannot be overlooked—particularly where schools and hospitals are involved. "In an age of concern about contagious diseases, plastic is the most sanitary method of serving food," the NYSRA's Fred Sampson contends. "Because it is disposable, plastic virtually eliminates the transmission of disease."

But despite its health and safety aspects, plastic is drawing heavy fire from consumer groups and legislators. The issue of "degradability" is generally one of the arguments most often cited by plastic opponents. In the ordinance to ban the use of polystyrene and polyvinyl chloride from the city of Newark, NJ, the municipal council writes: "Discarded nondegradable packaging and plastic contained within the waste stream...is considered a fundamental cause of problems associated with municipal waste, disposal, and litter."

Proponents of plastic tend to portray the degradability issue in a somewhat different light, however. At a symposium held in Chicago last summer on degradable plastics and the environment, Rathje told attendees that in his excavations of landfills, he had found "readable" newspapers and telephone books dating from 1977. He also showed slides of such food items as carrots, unearthed after 10 years in a landfill; all were largely intact and identifiable.

In those instances where degradability is cited in bills, it is not always defined—and when it is, the definition can be unrealistic, points out Harrington. "One bill that was introduced defines degradability as 'breaking down within 120 days of disposal'," he says. "Beyond being impossible, I'd like to know who starts the clock?"

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THE CRISIS HAS GENERATED BILLS ACROSS THE COUNTRY, MANY AIMED AT FAST FOOD.

And, say some observers, not all bills that would seek to legislate against plastics are offering any tangible solution to the solid waste crisis. For example, a bill before the New Jersey state legislature would level a 3¢ tax on each single-service plastic container. According to Frank Brill, the money raised from this bill would not go toward easing the solid waste problem in the state—it would be applied as a property tax relief for residents.

REVENUE RAISING. "It really has very little to do with the environment," he maintains. "It's just a revenue-raising bill that was meant to capitalize on what is perceived to be a widespread animosity toward plastics."

Nevertheless, most lawmakers are seeking reasonable answers to what has become a very emotional problem. At this point, the two most popular solutions appear to be mandatory recycling and the construction of waste-to-energy incinerators. And, while both have their inherent drawbacks, it is generally agreed that it is only a matter of time before both are incorporated on a wide scale.

New York City, for example, recently passed a recycling bill that will require all residents and businesses to separate recyclable materials—such as glass bottles, cans, and newspapers—from their garbage and place them in separate containers. The legislation will not take effect completely until 1994, however.

NYSRA's Sampson believes that the move is an "intelligent" one on the part of the city government, although "ultimately it will be an additional business expense. It's just one more example of the increased cost and burden the solid waste question will be putting on the business community."

CHOICE RECYCLING. New Jersey has a plan that requires all counties to recycle three items of their choice, such as glass, newspapers, and cans. As a result, most restaurant operations will have to have three dumpsters instead of one.

Lately, the prospect of recycling plastics has also become a reality. Last year, the Oak Brook, IL-based McDonald's Corp. embarked on a pilot project with a major plastics supplier and the state of New York. Along with the supplier, McDonald's agreed to fund a recycling project of polystyrene packaging and corrugated shipping containers. The refuse from about 20 McDonald's restaurants on Long Island and in New York City will be picked up and carted to a central facility where the polystyrene will be separated. It will then be reprocessed by the supplier at a site in Brooklyn into materials for nonfood use. (See page 152).

Lawmakers are also advocating the construction of waste-to-energy incinerators—large plants that burn waste and convert it into salable steam and electricity—as a solution to the solid waste problem. It is estimated that more than 70 of these plants are in operation and hundreds more have been planned at a cost of nearly $20 billion.

Proponents of these giant incinerators point out that they are also quite effective when disposing of plastics. In fact, plastics are required in the waste mix if they are to burn at peak efficiency. However, resource recovery plants also have detractors who argue that, beyond the high cost factor, they spew smoke into the air and leave toxic ash behind.

But NRA's Harrington argues: "Let's face it. Somebody's land is probably going to decrease in value. This is a lot more complicated that just a plastic cup lying by the road. There are no simple solutions. Only hard choices." For the most part, those most familiar with the problem advocate a comprehensive, integrated approach to the solid waste problem. This entails source reduction, recycling where appropriate, incineration, and limited landfills—generally as a receptacle for the ash from the incinerators.

On the other hand, most people agree that there is little time to waste. "The government will wait until the crisis has reached a critical level," declares Sampson, "and then the people will accept any solution. I can forsee a day when business will eventually be limited in the amount of garbage it can generate."

Harrington agrees with the urgency of the problem, but advises some caution in implementing solutions. "We all need to realize that we've been a throw-away society for 50 years, and now it's all catching up with us," he maintains. "Now that we're in the position where we can begin to do something about it, we don't want to end up trading one problem for an even bigger one later." ■

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'Taco Bell has introduced multipurpose packaging designs...and has minimized the usage of petroleum-based products. We have also tested reusable cartons and bulk syrup dispensing directly from the truck to the restaurant. And we have requested, through the packaging industry, that our legislators give us adequate time to jointly develop the necessary packaging technology to meet our waste management goals.'

John E. Martin, president & CEO, Taco Bell

FAST-FOOD REFUSE ACTUALLY ACCOUNTS FOR RELATIVELY LITTLE OF THE WASTE STREAM.

MARKET SEGMENT REPORT

MEXICAN

By Jacque Kochak

Still showing ample signs of growth opportunity—particularly on a regional level—the Mexican segment is experiencing two trends: the competition is getting tougher and the food is getting better.

"I see improvement in product and service," says Tom Dietrich, president and chief operating officer of Houston-based Two Pesos. "The competition is getting better and better, and it's keeping us on our toes." Competitors, for instance, cite market leader Taco Bell's noticeably improved food quality.

Though benefiting from the fact that tacos, burritos, and other Tex-Mex favorites are moving increasingly into the mainstream, Mexican restaurant operators still have their work cut out for them. As Mexican food has become accepted, restaurants of all types have added Mexican items to their menus.

One fast-food company that has done particularly well with Mexican offerings is San Diego-based Jack In The Box, part of Foodmaker Inc., which also owns Chi-Chi's, the Mexican dinner-house chain. Jack In The Box, which has offered tacos since the early '70s, last fall introduced taquitos. Taquitos are rolled tortillas with spicy shredded beef and guacamole or salsa.

Supermarkets, too, have gotten into the Mexican craze. According to *The Lempert Report*, a newsletter covering emerging trends, sales of frozen Mexican entrees in food stores grew 31% in 1987.

All this may be leading to a shakeout in the Mexican segment. "I think there's going to be more consolidation, and the winners will be the companies that execute well," says Two Pesos' Dietrich.

Competition in the Mexican segment is intensely regional. Customers in both the Southwest and California have long been familiar with Mexican food. Yet, much of the country is not saturated, and new chains are emerging in the Midwest and Northwest. The

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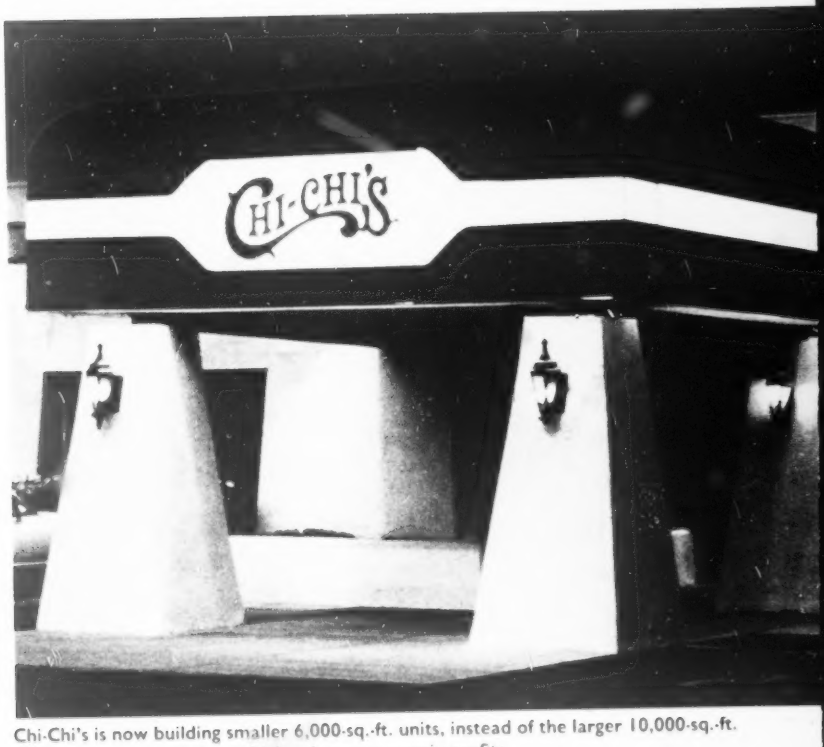
Lincoln, NE-based Amigos is positioned between fast food and dinner houses and has a broad menu that includes items such as its Mexican version of a baked potato.

← For more information on Cryovac (Sectional) circle number 145

MARKET SEGMENT REPORT

M E X I C A N



Chi-Chi's is now building smaller 6,000-sq.-ft. units, instead of the larger 10,000-sq.-ft. buildings that required very high volumes to sustain profits.

Northeast and some of the South—still virtually virgin territory—have proven difficult to crack.

SLOWED GROWTH. Figures from the National Restaurant Association show that the segment's frenzied growth of years past has slowed. Traffic counts for Mexican restaurants were up just 1.8% in 1988, compared with a 12.1% increase in 1986. Midscale Mexican restaurants actually showed a significant decline in customer counts, from a 1.0% increase in 1987 to an 11.6% decrease in 1988.

The healthiest part of the segment continues to be fast food. A taco is becoming a viable alternative to a hamburger. Traffic counts in fast-service Mexican restaurants were up 9.4% in 1988, according to the NRA. But even that healthy increase pales beside the 18.1% increase posted by fast-service Mexican units in 1986.

The main activity in the fast-food Mexican sector is continued, steady expansion. No new product introductions, concepts, or advertising have made waves in the last year.

On the upscale end of the Mexican spectrum, concepts are undergoing fascinating permutations as influences from various styles of cooking are being melded. "We're seeing a kind of 'second generation' of restaurants," says Ron Paul, president of the Chicago consulting firm Technomic Inc. "To keep the customer's interest, restaurateurs are offering blue corn chips and making fresh guacamole at the table."

Independents continue to be extremely important in the upscale part of the Mexican segment. Why? Because individual restaurateurs can open smaller restaurants that are responsive to individual markets.

Another significant factor on the upscale end is the growth of cantina-Restaurants such as Papagallo's in Houston, Rio Brava in Atlanta, On the Border in Dallas and Houston, and Chevy's in California offer copious amounts of food and beverages at relatively low prices and loud music amidst an atmosphere reminiscent of a bandido's hideout in Baja.

As a result, customer counts at upscale Mexican restaurants are increasing—up 4.6% in 1988 compared to a modest increase of 1.1% in 1987.

FAST FOOD. By far the most potent force in Mexican fast food continues to be Irvine, CA-based Taco Bell, owned by mammoth PepsiCo, with some 3,000 units, 60% of them company-owned. Giant Taco Bell, with 1988 systemwide sales of $1.6 billion, has 60% of the Mexican fast-food market and seems bent on becoming a nationwide force.

Taco Bell spokesperson Lisa Holler says that the chain has tripled total systemwide sales and doubled its number of units in the past five years. "We definitely see a lot of opportunity in the segment," she says. "The more competition there is, the more people are aware of Mexican food."

Ringing far behind Taco Bell in number of units and sales but still a major factor in its own arena is Cheyenne, WY-based Taco John's. Taco John presently operates 140 units, only nine of them company-owned. Taco John units are spread throughout 30 states but are clustered in Midwestern states such as Iowa, Kansas, and Minnesota. The company has also expanded heavily into the Northwest and operates a number of units in Florida.

Taco John began operating tiny, prefabricated 12-ft.-x-30-ft. walk-up units, many of which still exist. The company recently rolled out a "remodel incen-

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tive" program to encourage franchisees to add more seating. "We want less of a mom-and-pop image," says Renee Middleton, manager of the company's in-house advertising firm.

Taco John has also rolled out a new product line featuring chicken tacos and chimichangas. Middleton says that the additions reflect the increasing sophistication of the customer, and represent an attempt to expand Taco John's customer base slightly.

Another strong regional competitor is Eugene, OR-based Taco Time International, with 295 units worldwide; 277 are franchised.

Two hundred and three units are in the U.S. and 69 in Canada, but Taco Time has found that its brand of Tex-Mex plays just as well in other parts of the world. The company was the first to open a unit in Japan, where 20 units are now open. Two more are located in South America, and one in the United Arab Emirates.

Like others in the Mexican fast-food segment, Taco Time reports sales growing at a satisfying rate. Chain sales for 1989 are projected to reach $97 million. The company has also been pursuing a steady expansion program, with 34 units opened in 1988. Of those, 15 were in Japan. Taco Time also continued its push out of the Northeast, with units in Alabama, Indiana, North Carolina, Pennsylvania, and Virginia.

Like Taco John, Taco Time International has recently used chicken in product line extensions. Both a chicken fajita burrito and a chicken fajita salad have been added in the last 18 months.

Dallas-based Taco Bueno is a strong regional Mexican fast-food chain, with units clustered in Texas and Oklahoma. The company is owned by a British firm, Unigate PLC, which also owns four-unit Casa Bonita, a full-service Mexican restaurant concept.

One hundred and ten Taco Buenos are now open, with five opened in the last year. President Paul Fisherkeller, who joined Taco Bueno about six months ago after a stint as senior vice president of operations for Long John Silver's, is reluctant to comment on expansion. He will say that the company will stay in its present trade area for the time being.

Everything from guacamole and hot sauce to refried beans is prepared fresh in stores every day. Taco Bueno is also remodeling; the program will be completed within two years. Currently, 35 units have been remodeled, and sales have increased at those units.

Clearly, regional opportunity still exists in the Mexican fast-food market, despite the overwhelming hegemony of Taco Bell. In the Southwest, new roadside independents open up every day. Outside the Southwest, other small chains are gaining their own followings and are carving their own niches.

Among these is Lincoln, NE-based Amigos, with 24 units open in Nebraska and Kansas, only one of which is franchised. The company is adding units rapidly; at press time, six were under construction, and president Roger Moore says that by this time next year Amigos plans to be operating 40 units.

Amigos is establishing a position somewhere between fast-food and a dinner house. Customers order at a self-service counter, then sit down to be served by a waiter. Instead of disposables, Amigos uses plateware, but the average check is only $3.60. The menu is broad, ranging from fajitas and a taco salad to seven different burritos and about five different tacos. Many units also serve margaritas and beer.

Like the service, decor is somewhere between a fast-food restaurant and a dinner house. Amigos offers drive-thru windows, but dining rooms are decorated with hand-painted tiles, oak,

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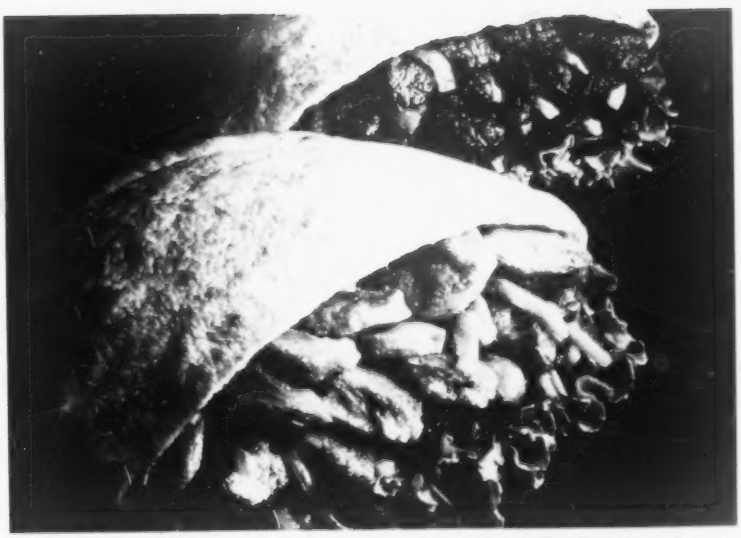


Although it is a major player in the hamburger segment, Jack In The Box's broad menu encompasses many ethnic-themed items such as these chicken and beef fajita pitas.

MARKET SEGMENT REPORT

MEXICAN

upholstery, and lots of plants.

HEALTHY MEXICAN. Part of Mexican food's appeal is the fact that entrees are relatively healthy. At least one company is capitalizing on that. Portland, OR-based Macheesmo Mouse is a concept that is winning a lot of attention because of its fresh, irreverent approach to Mexican food.

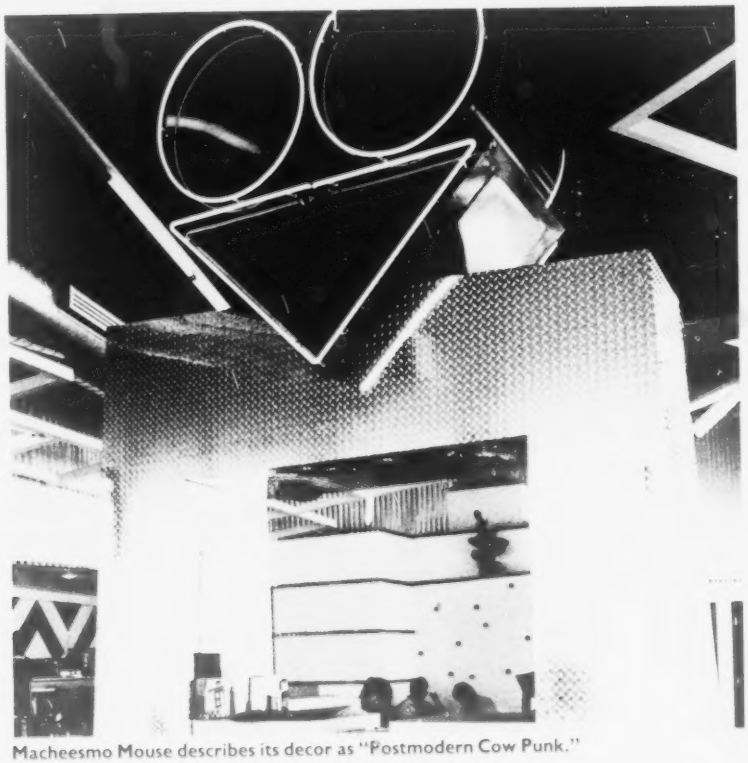
At press time, the 11th Macheesmo Mouse was opening on the West Coast. Units are located in Seattle, Portland, and San Francisco; none are franchised.

Nevertheless, owner William Warren is expansion-minded, and the Mice are multiplying. He hopes to open five additional units in the San Francisco Bay area and five in Seattle in the next year.

At Macheesmo Mouse, neither fryers nor animal fat are used. Black beans, brown rice, skinless chicken, and handmade wholewheat tortillas are staples on the menu. Yet, Warren emphasizes that these are not health-food restaurants. "I like to call it 'smart food'," he says.

Specialties include skinless breast of chicken basted in a special sauce and served with brown rice, black beans, and salsa, as well as chili Colorado made with pork and sirloin and black beans served with sour cream and salsa. A popular drink is a Cactus Cooler, made with iced tea, apple juice, lemon, and mint. The average check is $5.

Decor has been described as "Postmodern Cow Punk" and "Neo Navajo New Wave." Bright, primary colors and metallic surfaces are the hallmarks of Macheesmo Mouse restaurants. Simple, corrugated metal siding is everywhere. Counters zigzag at strategic points. The restaurants are self-service. Plates are recyclable, and real silverware is used. All bottles are returnable. Customers are expected to bus their own tables.



Macheesmo Mouse describes its decor as "Postmodern Cow Punk."

PATIO CONCEPTS. Competitors are still keeping an eye on two Texas concepts, San Antonio-based Taco Cabana and Houston-based Two Pesos.

Mexican operators outside the Southwest repeatedly point to these patio concepts as the "concepts to watch," while operators within the Southwestern Mexican belt view them with alarm. Patio concepts are tough competitors that are squeezing mid-price and small family operators because of their price/value relationship, attractive decor, and fun atmosphere.

Over the last couple of years the two companies have been involved in a legal battle, with Taco Cabana claiming that Two Pesos was a direct copy. At press time, a judge had just set a $3 million bond against Two Pesos and directed the company to change its buildings and signage.

At this point, both Taco Cabana and Two Pesos do business in buildings that are brightly colored, with seating divided between an indoor dining room, a patio seating area, and a dining room walled by sliding garage doors that can be opened in good weather. Both offer very broad, high-quality, authentic Mexican food at attractive prices. They offer Mexican entrees more typical of a Mexican dinner house, at prices and with a service style more typical of a fast-food eatery. Customers place their orders at a counter, then take their food to a condiment bar. Beverages are self-service.

The industry is watching these concepts because of their high volumes, often about $2.5 million per unit.

The larger of the two companies so far is Taco Cabana, with 27 company-owned units and five franchised units, all located in Texas and California. President Richard Cervera says that the company hopes to expand at a rate of about 50 a year, through a mixture of franchised and company-owned stores. Growth will be concentrated in the Southwest and California.

Right behind Taco Cabana in size is publicly owned Two Pesos, with 30 units currently open, only three of which are franchised. "We're excited

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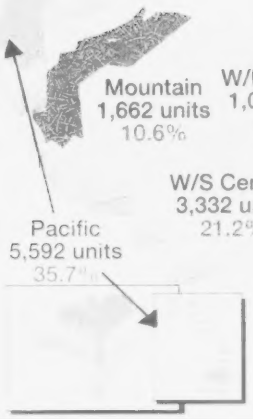
about the concept, we do well in the right location, but location is becoming more and more critical," says president and CEO Tom Dietrich.

There are currently 13 company units located in Houston, with six in Dallas, four in Oklahoma, one in Phoenix, one in El Paso, one in Minneapolis, and one in Atlanta. Franchised units are located in Virginia and Denver.

There has been some question about how these patio concepts would perform outside of the Sunbelt. But, Dietrich says that the Minneapolis unit is doing well. Two Pesos plans to open six to 10 units in the next year.

MIDPRICE MEXICAN. At a time when the Mexican segment still seems to offer substantial opportunity on both the fast-food and upscale ends, midprice

ROOM FOR GROWTH IN NORTHEAST



TOTAL MEXICAN RESTAURANTS: 15,681 units, or 4.3% of total U.S. restaurants.

Who's got chunkier, spunkier sauces?

MARKET SEGMENT REPORT

MEXICAN

Mexican restaurants are suffering. The malaise is felt most acutely in the Southwest, where the public's taste for Mexican food is fully developed and the competition is intense.

In many cities outside of the Southwest, local chains appealing specifically to local tastes have carved out a respectable presence, though they are unlikely to expand into other areas. In the Southwest, however, midprice operators are going head to head against each other, the patio concepts, fast-food operators, and even other types of casual restaurants.

As one competitor points out, "It's hard to have a middle point, because 'high-priced' Mexican food is not that expensive. There's not much room between fast-food prices and the upper end of the scale."

Dallas-based El Chico is among those midprice Mexican chains that have experienced difficulties. The 48-year-old company owns and franchises full-service Tex-Mex restaurants in 12 states in the Sunbelt region. As of February, the company operated 64 units and franchised 33.

Sales were soft in 1988, with El Chico showing a small loss in net income following a greater loss in 1987. By the first quarter of 1989, however, system-wide sales were up 5% and net income was in the black. Same-store sales increased 5.9% for the quarter. The improvements were a result of increased sales, improved operating margins, and a reduction in expenses related to

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THE TOP TEN MEXICAN RESTAURANT CHAINS

Ranked by number of units

TACO BELL Irvine, CA.....3,000	EL TORITO Irvine, CA.....175
TACO JOHN Cheyenne, WY.....440	TACO VILLA DEL TACO CORP. Dallas, TX.....146
DEL TACO INC. NAUGLE'S (AWR) Newport Beach,CA....380*	TACO TICO Wichita, KS.....110**
TACO TIME Eugene,OR.....295	TACO BUENO Dallas, TX.....110
CHI-CHI'S Louisville,KY.....190	EL CHICO Dallas, TX.....95

*Technomic estimate **RB estimate

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MARKET SEGMENT REPORT

MEXICAN

unit closings.

El Chico has announced that because of the positive results and additional strategic planning, the company will continue its course and won't look toward a restructuring or a sale or spin-off of parts of the company.

Rod Allen, the company's vice president of marketing, was uncommunicative about the company's plans, but did say that expansion would be through franchising rather than company-store development.

Another midprice Mexican chain that has experienced difficulties is Houston-based Monterey House, owned by INTEGRA. INTEGRA, formerly Brock Hotel Corp., bought Monterey House out of bankruptcy with the intention of turning the troubled chain around. INTEGRA has experience at doing just that; just a few years ago, the company took on the challenge of resurrecting ShowBiz Pizza Places. INTEGRA's vice president of marketing, Dick Huston, says that progress in turning Monterey House around has not been as rapid as envisioned. "Sales are down from last year," he says. "I could blame the Texas economy, but the real truth is that we haven't been moving fast enough."

Last year, INTEGRA announced plans to remodel restaurants, including punching in skylights to lighten dining rooms and adding lots of plants, color, and Mexican artifacts. The plan also called for improving and emphasizing food quality. So far, only one unit in 50 has been remodeled, and two more were undergoing remodeling at press time. Following remodeling, a broader menu is being introduced.

Some El Chico units have patio seating.

MEXICAN DINNER HOUSES. A major factor in the upscale Mexican restaurant segment is Irvine, CA-based El Torito, owned by Restaurant Enterprises Group Inc. (REG). REG is a low-profile company made up of many of the full-service restaurants formerly owned by New York City-based W.R. Grace & Co.

El Torito currently operates 175 Mexican restaurants as well as one franchised unit in Japan. Included in the 175 total are three units franchised by The Riese Organization in New York City, operating under the names El Torito and Tequila Willy's. Restaurants operated under the El Torito umbrella include El Torito, Casa Gallardo, Casa Maria, Tequila Willy's, Annie's Santa Fe, and Who Song & Larry's. The company's newest concept is Caliente, offering traditional Mexican fare with a Southwestern influence.

What's new with El Torito remains unclear, however, because executive vice president Mike Casey has been close-mouthed about the company's activities of late. He will say, however, that systemwide sales are up, which he attributes to strong management, a clear focus on guest satisfaction, and a stronger economy. He adds that the company plans to open an additional three units in the coming year.

Louisville, KY-based Chi-Chi's is continuing to show strong sales after a major turnaround effort, which started to take effect over a year ago. Franchised units are beginning to experience the same sales increases that company stores have been doing for the last year, says vice president of marketing Glenn Drasher.

The company was purchased by San Diego-based Foodmaker Inc., parent of Jack In The Box, a little over a year ago. There are now 127 company-owned Chi-Chi's and 63 franchised.

The company has not made any major changes in its menu or marketing approach recently, although Chi-Chi's is now building 6,000-sq.-ft. units, instead of the very large 10,000-sq.-ft. building that required very high volumes to sustain. "This permits us to go into smaller markets and is opening up new territories for us," says Drasher.

In addition, Chi-Chi's is aggressively pushing value-added promotions in

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Houston-based Two Pesos features a broad menu of dishes that are more typical of a Mexican dinner house, with prices and a service style more typical of fast food.

MARKET SEGMENT REPORT

MEXICAN

Tila's in suburban Chevy Chase, MD, is a riot of Latin American color, with mural walls and a ceiling reminiscent of a South American sunrise.

which an entree is offered with an appetizer and a dessert for a set price.

The company is also marketing its sauces and dips in grocery stores through a licensing agreement, as well as its margarita mix. Chi Chi's tortilla chips are being test marketed.

The most exciting developments in the upscale Mexican segment are taking place among independents. One upscale operation, Tila's, opened last year in the expensive Washington, DC, suburb of Chevy Chase, MD. Tila's operated in Houston for eight years before moving to Chevy Chase. Chef Clive DuVal III was trained in classical French techniques, but has put that training to use in developing an eclectic Latin cuisine with Oriental influences. He has lived in Honduras, Guatemala, and Nicaragua, and has traveled in the Orient.

In addition to more traditional items such as quesadillas and enchiladas, Tila's menu includes the likes of grilled mako shark marinated in mole sauce. The shark is grilled over applewood and served on a bed of sautéed spinach with a roasted shrimp, corn, and grapefruit relish. Another offering is pan-fried baby redfish with an orange-zest crust and orange beurre blanc sauce. Also popular is wild pig *barbacoa*, a spit-roasted pork loin with a rich brown gravy spiked with green peppercorns.

The 200-seat restaurant is a riot of Latin American color, with mural walls and a ceiling reminiscent of a South American sunrise. The Jungle Bar naturally, looks like a jungle, and the specialty is fresh fruit drinks. An additional 50 people can be seated on a terrace outside.

An equally unconventional upscale Mexican restaurant gaining increasing attention in New York City is El Teddy's, located in Manhattan's trendy TriBeCa neighborhood. While El Teddy's decor is unconventional, the food draws its inspiration from more traditionally Mexican cuisine.

For example, among the offerings are duck breast and fig tacos; quail stuffed with grapes and spinach, baked in clay; traditional tamales wrapped around gingered lobster; fresh yellowtail burritos; veal portobello; charred tuna steak with salsa fresca; and a tofu enchilada with a complicated Mexican mole sauce.

Yet, many of the offerings borrow closely from classical Mexican cuisine as opposed to Tex-Mex. *Sopa de ajo* is the rich, traditional Latin garlic soup, and *garnachas* are masa tarts with chicken and chile pipian. *Menudo* is the traditional northern Mexican tripe stew, and the traditional *arroz con pollo*, or chicken with rice, is available. Several of the entrees are served with the classical Mexican mole sauce.

El Teddy's has many furnishings and artifacts that were created by local artists. For example, bar tables are specially designed hand-shot stainless steel, and a reception stand is encrusted with abalone and mother-of-pearl. An enormous aquarium divides two dining rooms. El Teddy's was created by Andrew Young and Christopher Chestnutt. Young is director of operations for the George Lang Corporation. Chestnutt was one of the principals behind the creation of three New York City eateries: Tortilla Flats, Gulf Coast, and Sugar Reef.

Although traffic counts in the Mexican segment are not increasing as dramatically as they have in the past, opportunity clearly exists for the operator with a fresh approach and truly excellent food. That's evident in the success stories of the numerous chain and independent operators mentioned here. For those operators able to satisfy the customer's increasing appetite for high-quality Mexican food, the rewards can be great. But it takes clear thinking and a flair for knowing what the customer wants to make a splash in today's market. $

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